

Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 EUR-12 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 INT-05 NSC-05
SS-15 STR-07 CEA-01 GSA-02 /103 W
-----069877 211400Z /47

R 201331Z MAR 78
FM AMEMBASSY GABORONE
TO SECSTATE WASHDC 1845
INFO AMEMBASSY BONN
AMCONSUL CAPE TOWN
AMEMBASSY PRETORIA

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CAPE TOWN FOR EMBASSY

E.O. 11652: N/A
TAGS: ECON EMIN BC
SUBJ: AGREEMENT ANNOUNCED ON SALES AND FINANCIAL ARRANGEMENTS
FOR SELEBI-PIKWE

REF: (A) BONN 2122, (B) GABORONE 3100

1. SUMMARY: AFTER PROTRACTED NEGOTIATIONS, AN AGREEMENT HAS BEEN REACHED AMONG GOB, BAMANGWATO CONCESSIONS LIMIED (BCL), AND BCL'S PRINCIPAL SHAREHOLDERS (ANGLO-AMERICAN AND AMAX) TO RESTRUCTURE SALES AND CERTAIN FINANCIAL ARRANGEMENTS FOR SELEBI-PIKWE COOPER/NICKEL PLANT. SIGNATURE OF AGREEMENT MARCH 16 REDUCES DANGER FOR FORESEEABLE FUTURE THAT BOTSWANA'S LARGEST INDUSTRIAL PLANT MIGHT HAVE TO CLOSE. HOWEVER, AS LONG AS WORLD PRICES FOR COPPER AND NICKEL REMAIN DEPRESSED, FUTURE OF SELEBI-PIKWE OPERATION WILL BE CLOUDED. COPY OF AMAX SUMMARY FINANCIAL STATEMENT AND TERMS OF MARCH 16 AGREEMENT BEING POUCHED TO AF/S FOR MCCORMICK. END SUMMARY.

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2. BCL OFFICIAL, NORMAN HARDIE, GAVE THE AMBASSADOR COPY OF COMPANY ANNOUNCEMENT WHICH INCLUDES DETAILS OF MARCH 16 AGREEMENT AND SUMMARY OF BCL FINANCIAL STATEMENT FOR CALENDAR YEAR 1977. PRODUCTION OF COPPER/NICKEL MATTE WAS 30,772 METRIC TONS, A SLIGHT DECLINE FROM 32,506 M.T. PRODUCED IN 1976. NET LOSS ON CURRENT OPERATIONS FOR YEAR WAS PULA 31,643

AND BCL HAD ACCUMULATED DEFICIT OF PULA 102,497 AT CLOSE OF 1977. ONE BRIGHT SPOT FOR 1977 WAS THAT PRODUCTION DURING LAST SIX MONTHS OF YEAR WAS RECORD 19,307 M.T.

3. LOSSES WERE ATTRIBUTED PRIMARILY TO VERY SIGNIFICANT DECLINES IN WORLD PRICES FOR COPPER AND NICKEL. REPORT STATES THAT OUTLOOK FOR 1978 IS "SOMBER" BECAUSE PRICES FOR SELEBI-PIKWE PRODUCTS ARE NOT EXPECTED TO RISE. ALTHOUGH WORLD PRODUCERS OF COPPER AND NICKEL HAVE CUT BACK, LARGE INVENTORIES CONTINUE TO DEPRESS PRICES OFFSETTING ANY GAINS THAT MIGHT BE MADE BY INCREASED PRODUCTION AT SELEBI-PIKWE. ACCORDING TO REPORT, BCL WILL NOT PAY ANY DIVIDENDS TO STOCK-HOLDERS IN 1978.

4. AGAINST THIS BLEAK BACKGROUND, AGREEMENT REACHED MARCH 16 CONTAINS FOLLOWING PROVISIONS:

A. SALES - AMAX HAS AGREED TO BUY 100 PERCENT OF PRODUCTION FROM SELEBI-PIKWE INSTEAD OF TWO-THIRDS UNDER PREVIOUS AGREEMENT. BCL WILL NO LONGER PAY EXPENSIVE SALES COMMISSIONS TO METALLGESELLSCHAFT (MG) OF WEST GERMANY.

B. FINANCING - A NUMBER OF MEASURES HAVE BEEN TAKEN TO SHORE UP BCL'S FINANCING AND IMPROVE ITS ACCESS TO NEEDED CAPITAL. SUMMARY OF AGREEMENT PROVIDED BY HARDIE DOES NOT MENTION LOAN BY CHASE MANHATTAN BANK WHICH, WE UNDERSTAND, WAS CRUCIAL LIMITED OFFICIAL USE

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TO CONCLUSION OF AGREEMENT.

C. ROYALTIES - UNDER NEW AGREEMENT, GOB WILL RECEIVE ROYALTY OF THREE PERCENT OF GROSS VALUE OF THE RECOVERABLE NICKEL, COPPER AND COBALT CONTAINED IN MATTE SOLD BY BCL, PAYABLE ON SEMI-ANNUAL BASIS. GOB FORMERLY RECEIVED ROYALTY BASED ON PROFITS WITH MINIMUM OF PULA 750,000/YEAR.

5. AMAX SEES FOLLOWING IMPORTANT ADVANTAGES IN MARCH 16 AGREEMENT:

A. SALES OF TOTAL PRODUCTION OF BCL'S MATTE HAS BEEN ASSURED AND RECEIPT OF SALES PROCEEDS ACCELERATED;

B. LARGE SALES COMMISSIONS TO A THIRD PARTY HAVE BEEN ELIMINATED;

C. BCL'S CURRENCY RISK AND THE COMPANY'S AND BCL'S INTEREST BURDENS HAVE BEEN REDUCED;

D. A SIGNIFICANT AMOUNT OF BCL'S SUBORDINATED DEBT HAS BEEN CAPITALIZED AS PREFERENCE SHARES;

E. LIMITATIONS ON BCL'S ABILITY TO BORROW HAVE BEEN EASED;

F. COMPLETION TESTS AND RESTRICTIONS ON PAYMENT OF DEBT AND DIVIDENDS IN VARIOUS LOAN AGREEMENTS HAVE BEEN MODIFIED IN FAVOR OF BCL AND THE COMPANY; AND

G. DISPUTES WITH AMAX AND MG HAVE BEEN RESOLVED.

5. ACCORDING TO AMAX ANNOUNCEMENT, THESE ADVANTAGES ARE PARTIALLY OFFSET BY SIGNIFICANT INCREASES IN ROYALTIES PAYABLE TO GOB.

6. COMMENT: WITH SIGNING OF MARCH 16 AGREEMENT, SELEBI-LIMITED OFFICIAL USE

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PIKWE APPEARS TO HAVE WEATHERED ITS LATEST CRISIS, AND BCL WILL HAVE THE CHANCE TO DEMONSTRATE THAT TECHNICAL PROBLEMS WHICH PLAGUED STARTUP OF SELEBI-PIKWE HAVE NOW BEEN OVERCOME. HOWEVER, EFFICIENCY IN TECHNICAL OPERATIONS STILL MAY NOT BE ENOUGH TO TURN SELEBI-PIKWE INTO PROFIT-MAKING OPERATION AS LONG AS WORLD PRICES FOR COPPER AND NICKEL REMAIN DEPRESSED.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MINING INDUSTRY, FINANCIAL AGREEMENTS, INDUSTRIAL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978GABORO00801
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780124-0331
Format: TEL
From: GABORONE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780348/aaaabopy.tel
Line Count: 144
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3f52f2c3-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 BONN 2122, 78 GABORONE 3100
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 19 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3271877
Secure: OPEN
Status: NATIVE
Subject: AGREEMENT ANNOUNCED ON SALES AND FINANCIAL ARRANGEMENTS FOR SELEBI-PIKWE
TAGS: ECON, EMIN, BC, SELEBI-PIKWE
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/3f52f2c3-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014